ENBRIDGE GAS PROPOSAL

1. In order to avoid the regulatory burden associated with separate applications to the Ontario Energy Board ("OEB" or the "Board") for project specific System Expansion Surcharge ("SES") or Temporary Connection Surcharge ("TCS") and Hourly Allocation Factor ("HAF") approvals, Enbridge Gas is requesting Board approval to apply the SES or TCS and HAF for future projects in accordance with pre-set criteria consistent across the Enbridge Gas rate zones. The SES and TCS are rate surcharges applicable to general service customers in the project area. The HAF will be used to allocate capital costs to customers for the purposes of conducting economic feasibility analyses for those served by the project. The details related to the proposed SES, TCS and HAF are further described in this evidence and the other exhibits referenced herein.

2. Enbridge Gas is seeking approval under section 36 of the *Ontario Energy Board Act, 1998*, as amended ("OEB Act"), for application of the SES and TCS as described in this evidence, including proposed amendments to its respective rate schedules as set out in Exhibit C, Tab 1, Schedule 1 and Exhibit C, Tab 1, Schedule 2. Enbridge Gas is also seeking Board approval for use of the HAF, which is a cost allocation mechanism to be used for economic feasibility calculations (not a rate), as described in this evidence and in proposed amendments to the Company's feasibility policies[1] as set out in Exhibit C, Tab 2, Schedule 1 and Exhibit C, Tab 2, Schedule 2. The feasibility policies also contain explanations about the SES and TCS.

[1] For the Union rate zones, the feasibility policy is entitled the Distribution New Business Guidelines and for the EGD rate zone, the feasibility policy is entitled Economic Procedure and Policy.

3. If the Board accepts Enbridge Gas's proposal, it would no longer be necessary for Enbridge Gas to seek approval under section 36 of the OEB Act for the SES and TCS on a project specific basis either for projects that meet the criteria for a leave to construct ("LTC") application or for smaller distribution projects. Similarly, Enbridge Gas would be able to use the HAF in accordance with its feasibility policies without obtaining Board approval on a project specific basis.

4. Enbridge Gas is proposing two rate surcharges (SES and TCS) to address two distinct project types:

   i. The SES will be applicable to each Community Expansion Project, defined as a natural gas system expansion project for which the profitability index ("PI") is less than 1.0 and which will provide first-time natural gas system access to a minimum of 50 potential customers, The SES will be applicable to all small volume customers. Customers who consume more than 50,000 m^3 per year will have the option of paying the SES or negotiating another method of contribution to the project; and /C

   ii. The TCS may be applicable to each Small Main Extension or Customer Attachment Project, defined as a natural gas system expansion or extension project for which the PI is less than 1.0 and which will provide distribution access to fewer than 50 potential customers. Customers who consume more than 50,000 m^3 per year will have the option of paying the TCS or negotiating another method of contribution to the project. These projects include the extension of mains, the related service attachments and any service lines to individual customers connecting to pre-existing mains. /C

5. Enbridge Gas is also seeking approval of the HAF to be used, as appropriate, in the allocation of capital costs to individual or multiple customers, on a peak hour basis, in the economic feasibility analysis for any:
    - Development Project, defined as a system expansion project that will expand capacity over a certain area to serve increasing demands from existing and/or new customers. It may include a mix of large and small volume customers.

System Expansion Surcharge (SES)

6. Enbridge Gas is requesting that the Board approve a volumetric based SES of $0.23 per cubic metre that would be applicable to all small volume customers served by Community Expansion Projects as defined above. The SES requested would be a constant volumetric per cubic metre charge that appears on small volume customer bills in addition to the regular Board approved rates for the applicable rate class. While Enbridge Gas's approved rates will change over time, the SES will not. Consistent with the current versions of the SES which have previously been approved by the Board, the form of SES proposed in this application will be considered revenue and treated as such for the purpose of the economic feasibility analyses.

7. The SES will allow customers to be served by Community Expansion Projects to contribute a portion of their savings from converting to natural gas towards natural gas system expansion feasibility. The SES addresses the Board's determination in the Generic Proceeding on Community Expansion, EB-2016-0004 (the "Generic Proceeding"), that "for many communities a higher gas distribution rate would be more than offset by the savings these customers would realize over time by converting to natural gas. This is true even when one considers the costs of

conversion, such as a new or modified furnace."[2] The proposed rate of $0.23 per cubic metre is appropriate for small volume customers as it was derived from a study that reviewed small volume customers' energy costs and conversion costs. Larger volume customers typically have different costs and potential savings such that $0.23 per cubic metre would make conversion uneconomic. Feasibility for large volume customers within a Community Expansion Project will be calculated separately in accordance with the Board's E.B.O. 188 Guidelines[3] and any required contribution in aid of construction ("CIAC") will generally be applied directly to those customers or addressed through the applicable large volume rate multi-year contracts. However, the option will be available to these customers to pay the SES in lieu of or in addition to a CIAC.

8. In the case of the EGD rate zone, the Board had previously approved the general use of the SES across large and small system expansion projects in a manner consistent with the Board's E.B.O. 188 Guidelines[4]. However, in the case of the Union rate zones, the SES was approved on a project specific basis[5].

9. In the EGD rate zone, Enbridge Gas has received approval to use the SES in the Town of Fenelon Falls (EB-2017-0147) and Scugog Island (EB-2017-0261) expansion projects. In the Union Gas rate zones, the SES has been approved for use in several projects such as Prince Township, Milverton, Rostock and Wartburg, and Kettle and Stony Point First Nation.[6] Enbridge Gas is proposing in this

[2] EB-2016-0004, Decision with Reasons
[3] Issued pursuant to the OEB Report on Natural Gas System Expansion, dated January 30, 1998.
[4] EB-2017-0147, Decision and Order
[5] EB-2015-0179
[6] EB-2015-0179, Community Expansion Application (Union)

application that the SES, as detailed below, be approved for use for future Community Expansion Projects in all rate zones.

10. Under this proposal, provided that the area to be served by an Expansion Project includes 50 or more existing potential customers, the SES will apply to all small volume customers located in the project area. As noted above, customers will be charged the applicable Enbridge Gas regulated distribution rate, as well as the SES. The SES will appear as a separate line item on each customer's monthly Enbridge Gas bill. Potential customers will be informed of the details of the SES charge as each Community Expansion Project is developed, as well as at the time they make their application to Enbridge Gas for service.

11. The SES will apply for a period of up to 40 years. The term of the SES for each project will be set such that the project will achieve a PI of at least 1.0. Enbridge Gas notes that there is a difference in approach between the EGD and Union rate zones with respect to updating the project's PI and its impact on the duration of the SES. In this application, Enbridge Gas is proposing to adopt the SES on the same basis as it has for previously approved projects in the Union rate zones (e.g.,EB-2015-0179). As such, the Company is not proposing to periodically update the project's PI for the duration of the SES term.

12. In the OEB's recent EB-2019-0188 Decision concerning the extension of gas service to the Northshore and Peninsula Roads area in the City of North Bay the Board noted that under the same proposal as that outlined above the increased profitability of a project would be captured in the Company's base rates resulting in reduced rates for all customers. This treatment is consistent with the portfolio concept that underpins the Board's E.B.O. 188 Guidelines that requires the Company's

Investment Portfolio PI to be greater than 1.0 (1.0 plus a safety margin)[7]. It is the Company's view that this E.B.O. 188 requirement implicitly recognizes that some projects will be more profitable than others and that over the discounted cash flow period over which the project PIs are calculated, more profitable projects will result in investment Portfolio PI greater than 1.0 and declining rates for all customers over time, all else equal.

13. After the term of the SES is set, there may be customers who attach to the Community Expansion Project after it has been placed into service. Customers attaching after the in-service date will also be required to pay the SES for the remainder of the SES term for that project. Similarly, the ongoing obligation for payment of the SES will attach to the property (not the owner) for the balance of the original term.

14. Enbridge Gas's proposal for the SES has been set out such that it meets the criteria as defined in the Generic Proceeding, EB-2016-0004. Enbridge Gas's proposal is also consistent with the E.B.O. 188 Guidelines. By adhering to both, Enbridge Gas will be maintaining the principle of avoiding long term cross-subsidization by existing customers of new customers.

15. Enbridge Gas recognizes that the initial evaluation of a Community Expansion Project and the SES term are determined based on estimated capital costs and a forecast of customer attachments, revenue rates, and natural gas consumption. Following the end of a project's Rate Stabilization Period ("RSP"), Enbridge Gas will use the actual project revenues including actual SES revenues for ratemaking purposes subject to OEB review and approval. In other words, Enbridge Gas will not

[7] E.B.O. 188, Final Report of the Board relating to Natural Gas System Expansion, page 11

seek to recover from existing or new community expansion customers any shortfall in revenue requirement for the first 10 years of a project's in-service date. The Company proposes that it would bring forward for approval any potential revenue requirement shortfalls or excesses for the future period in the next rates rebasing application after the 10-year RSP.

16. During the RSP, Enbridge Gas will include projected revenues as derived from the customer attachment and volumetric forecast inclusive of SES revenue for each particular project in the determination of any revenue sufficiency or deficiency in the process of setting of OEB approved rates. Enbridge Gas will not seek to reflect the actual revenues of a project in the determination of rates until after the RSP has expired. After the RSP has expired, actual revenues for a particular project will be used for the determination of any revenue sufficiency or deficiency in the process for setting approved rates.

17. With respect to capital costs, Enbridge Gas proposes to treat these costs in the same manner as the costs of other capital projects. The Company will bring forward its actual capital costs at the next rebasing proceeding following the 10-year RSP. This treatment of capital costs is the same as other distribution system expansion projects that form part of the common rate base and is consistent with the Board's ruling on this issue in EB-2015-0179.

18. Any variances between forecast and actual capital costs for a project would therefore be captured in rates at the rebasing application following the end of the 10-year term of the RSP. Enbridge Gas is at risk for potential revenue shortfalls during the 10-year RSP and will not seek recovery for any overages or shortfalls related to the RSP. Enbridge Gas will seek to include the actual project cost in the base upon which rates are set in the next rebasing application that follows the end of the RSP.

19. In the event that Enbridge Gas should seek recovery of any revenue requirement shortfall after the end of the initial 10-year RSP, it will be supported by an updated PI calculation that uses actual capital costs and actual customer attachments (revenues). The OEB stated in Union's Community Expansion Application[8], "The OEB agrees with this approach and will require Union to provide a revised DCF calculation based on actuals after the 10-year forecast risk period is over in the event that Union seeks to recover any revenue requirement shortfall."

20. Enbridge Gas is requesting that the Board approve a 10-year RSP for all Expansion Projects. The RSP will address the Board's finding in the Generic Proceeding, EB-2016-0004 that "a utility would bear the risk for that 10-year period if the customers they forecast did not attach to the system."[9] The RSP will commence on the in-service date of the Project. A 10-year period is also consistent with what the Board approved in EGD's application for an SES applicable to all future Expansion Projects in EB-2017-0147.

21. The RSP is proposed to function as follows: If leave of the Board is granted to construct an Expansion Project, Enbridge Gas will include the forecasted capital costs of a project in rate base as of the in-service date. Capital costs included in rate base would be those costs outlined in the economic feasibility assessment of the project net of any third-party funding (such as government administered grants pursuant to O.Reg. 24/19, municipal contributions and any contribution in aid of construction from customers).

[8] EB-2015-0179, Decision and Order, Page 14
[9] EB-2016-0004, Decision with Reasons

22. Following the end of each project's RSP, the following information will be reported for the most recently ended fiscal year for which actual information is available on a project specific basis:
    - Budgeted and actual capital costs, both at a gross level, and net of any CIAC, as of a project's in-service date;
    - Cumulative forecasted customer and actual customer attachments for the duration of a project's 10-year customer addition forecast period; and
    - Project's PI updated to reflect the project's actual capital cost and revenues over its RSP.

Temporary Connection Surcharge (TCS)

23. Enbridge Gas is asking the Board to approve a TCS which is similar to the SES but will be used for smaller distribution expansion projects that will provide natural gas system access to fewer than 50 potential customers in homes and businesses. /C This will allow for these customers to gain similar benefits to those being served by larger Community Expansion Projects.

24. Enbridge Gas's proposal for a TCS would apply to those small volume customers who would otherwise be required to pay a CIAC in order to make gas service to their property economically feasible at a PI of 1.0. In these situations, Enbridge Gas would have the ability to offer the TCS for up to 20 years as an alternative to these potential customers rather than requiring them to pay a lump sum CIAC prior to the in-service date of the facilities.

25. Enbridge Gas is proposing the TCS rate be set at $0.23 per cubic metre which is the same rate as proposed for the SES. Setting the TCS at the same rate as the SES also allows small volume customers to contribute a portion of their savings from

26. converting to natural gas towards natural gas system expansion feasibility. Availability of a TCS for small main extensions or attachments will provide an alternative to CIAC for those customers where attachment to Enbridge Gas's system is not economically feasible based on the use of current approved rates only.

27. A CIAC requires an up-front payment which the customer must provide prior to construction. This requirement acts as a barrier to conversion for some customers. The TCS, on the other hand, provides a mechanism for a small volume customer to fund the costs of attachment from the annual savings achieved by converting to natural gas. Similar to the SES, the ongoing obligation for payment of the TCS will attach to the property (not the owner of the property), for the balance of the initial TCS term.

28. Consistent with the SES, after the term of the TCS is set, customers who attach to the system in the TCS project area after it has been placed in service will also be required to pay the TCS for the remainder of the initial term for that project.

29. The TCS will appear as an extra line item on each monthly bill, labelled "Temporary Connection Surcharge". For clarity, this line item will be in addition to other current gas bill line items such as commodity, transportation, storage, delivery, and the fixed monthly charge which are all identified in current Board approved rate schedules. Customers affected by the TCS will be informed of the details of any applicable TCS charge as the project is being developed, as well as at the time they make their application for service to Enbridge Gas.

30. Consistent with the current versions of the SES which have previously been approved by the Board, the form of TCS proposed in this application will be

considered revenue and treated as such for the purpose of the economic feasibility analyses.

31. The proposed TCS will be applicable to small volume customers served by small main extensions and/or attachments, as an alternative to CIAC to achieve a PI of 1.0, or in addition to CIAC for a project to achieve a minimum PI of 1.0. The proposed rate of $0.23 per cubic metre is appropriate for small volume customers as it was derived from a study that reviewed small volume customers' energy costs and conversion costs. Larger volume customers will have the option of paying an upfront CIAC and/or the TCS or entering into multi-year contracts under large volume rate classes as a means of supporting the economics of these projects, subject to the E.B.O.188 Guidelines.

32. Enbridge Gas's proposal for the TCS has been set out such that it meets the criteria as defined in the Generic Proceeding, EB-2016-0004. Enbridge Gas's proposal is also consistent with the E.B.O. 188 Guidelines. By adhering to both these Board decisions, Enbridge Gas ensures that the principle of avoiding long term cross subsidization from existing ratepayers to new ratepayers is maintained.

33. The proposed TCS is similar in nature to the SES other than the differences identified below.

34. The TCS term will be determined on a project specific basis and will be restricted to a minimum of one year to a maximum of 20 years from the project's in-service date. The term will be based on the number of years of TCS revenues required so that the project will achieve a PI of 1.0. This approach is consistent with the calculation for

SES terms which has been approved in EB-2017-0147 as well for several other projects as noted earlier in the application.

35. The 20-year maximum may not make all projects economically viable, in which case Enbridge Gas expects that a CIAC will be required in addition to the TCS.

36. Enbridge Gas proposes that projects where a TCS rate rider is applied should be included in the Company's Rolling Project Portfolio and Investment Portfolios alongside other system expansion projects. This will provide an ongoing method of determining the financial feasibility and rate impact of expansion projects as prescribed in E.B.O. 188. As such, separate tracking and reporting on these projects will not be warranted.

Hourly Allocation Factor (HAF)

37. The HAF is a method of allocating the upfront capital investment of a Development Project designed to provide incremental firm capacity to multiple customers forecasted to require additional firm service within an identified Area of Benefit[10]. Unlike the SES and TCS, the HAF is not a rate, but rather an element of the Company's respective economic feasibility policies that addresses the method by which capital costs of a project are allocated.

38. The concept of the HAF is consistent with the Board's E.B.O. 188 Guidelines which states: *"The Board agrees with the parties that the common criteria for contributions in aid of construction should apply to all customer classes. If there is a reasonable*

[10] The Area of Benefit is defined as the geographic area, drawn as a polygon on a map, that includes all customers who will be served by, and benefit from, the infrastructure build or pressure increase from the Development Project.

expectation of further expansion, the contribution in aid of construction is expected to take into account the future load growth potential and timing of any such expansion." (E.B.O. 188, Final Report of the Board, January 30, 1998, section 4.3.4, page 19). Further, the E.B.O. 188 Guidelines also contemplated that capital costs will be allocated based on the customer's peak day demand (E.B.O. 188, Final Report of the Board, January 30, 1998, Sec. 4.3.3, part (ii), page 19). The HAF refines this by making this allocation based on each customer's peak hour demand.

39. Fundamentally, the HAF is derived by dividing the net forecasted capital cost of a project by the forecasted capacity that the project serves within the Area of Benefit. The HAF is expressed as a capital cost for each cubic metre per hour of incremental capacity. This approach has previously been used and approved in four LTC projects in the Union rate zones. A summary of these previously approved projects and their corresponding HAF calculations is provided in Appendix A to this exhibit. The HAF can then be used to allocate the capital cost of a project to the customers the project serves as each customer contracts for or initiates service, based on each customer's incremental capacity requirement, in addition to the costs of any customer specific facilities that may be required (e.g., upgrades to a customer station, service line, or distribution main).

40. Enbridge Gas is proposing that the Board approve the use of the HAF process as an allocation methodology for capital costs in future Development Projects. The previous four LTC Board approved projects that employed the HAF approach all had about 50% of the capacity committed or more prior to being advanced for LTC approval. See Appendix A for details.

41. The HAF process ensures fairness and helps ensure cost causality especially where multiple incremental customers or demands are anticipated in an Area of Benefit over a period of several years. It provides a process to design and build the optimal facilities for the future and ensures each new customer or demand is allocated an appropriate portion of the Development Project as they each move through the commitment or contracting and connection process. In this way the first customer does not bear the entire economic burden, nor the last customer avoid theirs.

42. The concept of the Hourly Allocation Factor is to fairly and equitably share and allocate the costs and benefits of a Development Project that benefits multiple customers commensurate with peak hour demand. When a Development Project is proposed, it can be modelled to determine an Area of Benefit. The Area of Benefit is the geographic area that will see a noticeable increase in firm natural gas capacity as a result of the Development Project.

43. Enbridge Gas is proposing that the threshold of eligibility be scaled with the size of the Development Project. For larger projects, Enbridge Gas would propose that the HAF apply only to large volume customers. For smaller projects, all customers, large and small, would be included. In the four previously approved LTC projects, the “floor” of HAF applicability was set at 200 cubic metre per hour. Enbridge Gas determined the proposed HAFs based on the known parameters at that time, by dividing the net forecasted capital by the total forecasted capacity in cubic metres per hour made available by the project for customers who required in excess of 200 cubic metre per hour. These projects primarily targeted large volume customers, and as a result, a threshold was set that would target and capture those customers. In the future, with a smaller Development Project, that targets a mix of larger and mid-sized customers a lower threshold may be more appropriate. Enbridge Gas is

proposing that the threshold of applicability be set by Enbridge Gas on a case by case basis. The HAF will typically be applied in situations where gas service is being made available to large volume customers, however it can also be used for projects involving small volume customers where one or more of them may be placing a larger peak demand on the system relative to others that are served by that project.

44. Consistent with previous LTC projects, once the HAF is determined and set, it remains constant for all customers meeting the threshold of applicability for that particular Development Project requesting incremental capacity within the Area of Benefit. Enbridge Gas will cease to allocate and apply the HAF to the economic feasibility analysis of new customers requesting service in the Area of Benefit once the total incremental capacity has been fully allocated[11]. This approach will help reduce the situations where a single customer underpins a large project with a long-term contract or CIAC and then a neighbouring customer gains access to the incremental capacity without being allocated a fair share of the capital costs that generated that capacity. It also allows the Company to factor in anticipated growth to optimize the design of the facilities up front.

45. For the purposes of the economic feasibility analysis for customers allocated costs using the HAF, Enbridge Gas would continue to apply the E.B.O.188 Guidelines. Large volume customers would have flexibility through longer term contracts and/or a CIAC payment to achieve a PI of 1.0. Small volume customers would have the option of a CIAC payment and/or the TCS, as applicable over a defined term to achieve a PI of 1.0.

[11] EB-2018-0188, CK Rural Expansion Project; EB-2019-0218, Sarnia Expansion Project

Rate Design

Enbridge Gas proposes to set the SES and TCS at a fixed volumetric rate of $0.23/m3 applicable to small volume customers served by expansion and extension projects as defined above. The SES and TCS are in addition to Enbridge Gas's base distribution rates as approved by the Board from time to time for applicable customers. The SES and TCS will be available to customers in general service rate classes in the EGD and Union rate zones. Enbridge Gas proposes to update Rider I in the EGD rate zone and the Rate 01, Rate 10, Rate M1 and Rate M2 rate schedules in the Union rate zones to include a provision for the SES and TCS fixed volumetric rate of $0.23 cubic metre for general service customers. The draft rider and rate schedules are provided at Exhibit C, Tab 1, Schedules 1 and 2. There are no rate schedule changes required for the HAF.

Economic Feasibility Policies and Conditions of Service

46. Enbridge Gas proposes to update the Economic Feasibility Procedure and Policy in the EGD rate zone and its Distribution New Business Guidelines for the Union rate zones to describe its proposed application of the SES, TCS and HAF. The revised feasibility policies are provided at Exhibit C, Tab 2, Schedules 1 and 2.

47. If its proposals for the SES and TCS are approved, Enbridge Gas proposes to make a minor revisions to the Conditions of Service for each of the Union Gas and EGD rate zones. Those revisions are set out at Exhibit C, Tab 3, Schedule 1. Enbridge Gas will provide advance notice to applicable customers of the revised Conditions of Service in accordance with section 8.5.1 of the OEB's *Gas Distribution Access Rule*.